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January 31, 2006

Alan C. Lloyd, Ph.D., Agency Secretary
California Environmental Protection Agency
1001 I Street
Post Office Box 2815
Sacramento, CA 95812-2815

RE: Comments on the Climate Action Team Report to the Governor and Legislature

Dear Secretary Lloyd:

On behalf of Calpine Corporation, I would like to submit the following comments regarding the December 8th Climate Action Team Report to the Governor and Legislature. Calpine supports the climate change goals announced by Governor Schwarzenegger last June and we are pleased to see that the Climate Action Team has moved so quickly to develop targeted strategies to achieve these goals.

Calpine is already taking a number of voluntary measures both in California and nation-wide to encourage lower carbon emissions associated with electric power generation. Calpine is a member of the California Climate Action Registry (CCAR) and we were among the first companies to have our entire national carbon dioxide (CO_2) emissions registered and certified. We are one of twenty Silicon Valley companies that have committed to reduce that area's greenhouse gas emissions to 20 percent below 1990 levels by 2010. Nationally, we participate in EPA's Climate Leader program and we have pledged to reduce our CO_2 emission rate by 4% by 2008.

Calpine also realizes that while voluntary measures are important, mandatory steps are also needed to achieve meaningful progress toward reducing greenhouse gases. For that reason, we have supported appropriate federal, regional and state policies that aim to reduce CO_2 emissions within the electric power sector while still allowing consumers access to affordable, reliable power. In general, we believe that policies that reward efficiency and encourage low and non-emitting sources of power are the best ways to move toward a lower carbon future. We also strongly agree with Secretary Lloyd that any carbon policy must take into account other environmental benefits associated with reducing greenhouse gases.

Calpine's comments focus on our support for three of the four major recommendations identified in the Climate Action Team's Report. Because Calpine is not in the transportation sector, we do not feel we have the expertise to take a specific position on the public goods charge recommended for the transportation sector.

1) **Mandatory Reporting:** Calpine supports the Climate Action Team's call for mandatory reporting for greenhouse gas emissions and we encourage the state to continue to use the protocols and measurement tools developed by the California Climate Action Registry (CCAR). We believe that among the various national and international greenhouse gas registry programs, the CCAR has developed the gold standard for reporting and verifying emissions. Because we realize that reporting of CO_2 offers different challenges to different industries, we hope that in moving to mandatory reporting the state recognizes that it may take some sectors longer to achieve a full inventory of their emission profiles. As one of the first companies to report and certify our emissions nationally, we would offer to work with other companies to share our experience and expertise on this matter.

2) **A Coordinated Investment Strategy for the State Funding Programs:** The state also calls for a coordinated investment strategy that would provide incentives for transitioning the state toward a lower carbon footprint. Given that California is a world technology leader in many sectors, Calpine agrees that the state's move to lower carbon policies may also help make it a leader in developing and deploying low and zero carbon technologies.

   One important area that Calpine supports regarding investment incentives is the recent draft procurement incentive framework released on January 13, 2006 by the California Public Utility Commission (CPUC). Under its proposed procurement framework, the Commission would impose a cap on those utilities that fall within the jurisdiction of the Commission. Calpine believes that the Commission's recommended cap, imposed on load serving entities rather than on specific facilities, is the best way to insure out-of-state power generation that hopes to sell into the California market meets the same standards required of in-state generators.

   A second low carbon investment strategy that California should consider is moving more rapidly to replacing its aging fleet of older gas fired generation with new, efficient combined cycle power through a strong competitive procurement process. According to the 2005 California Energy Commission's integrated resource plan, the state has more than 17,000 megawatts of older gas generation. If this older generation was replaced with new, state-of-the-art combined cycle power, California's CO_2 emissions would decrease by about 18.5 million tons a year -- *the equivalent of removing 3.6 million automobiles annually from California's highways.* In addition to improving public health through other air emissions reductions, this move would save California consumers about 313 million BTUs of natural gas each year.

3) **Provision For Early Action:** Calpine supports the Climate Action Team's recognition that those businesses that are already taking steps to transition to lower carbon technologies should be rewarded for their leadership in any future carbon policies. Such recognition is essential if the state wants to send immediate signals to businesses, because some policy choices can actually penalize early leaders on this front. For example, if the state decides to move toward a cap and trade program, baselines should not be determined in ways that reward historically high emitters while penalizing historically low and non emitting sources of power. Further, power generators that have invested in technologies that are lower than the state's average emissions should receive some recognition for the avoided emissions associated with this generation. Specifically, the state may want to consider a carbon efficiency metric or generation performance standard that provides an objective yardstick to measure various electric power options based upon their carbon content. Such a metric will allow the state to recognize both past low carbon investment practices as well as provide future incentives for similar investments.

Again, Calpine is pleased to provide comments on these three specific issues associated with the Climate Action Team Report to the Governor and Legislature. We look forward to continuing to work with the Governor and the Legislature on these and other issues discussed in the report.

Sincerely,

CALPINE CORPORATION

Peggy Duxbury

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